

**SOUTH CAROLINA
HUMAN AFFAIRS COMMISSION
COLUMBIA, SOUTH CAROLINA**

STATE AUDITOR'S REPORT

JUNE 30, 2001

CONTENTS

	<u>PAGE</u>
I. INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES	1
II. ACCOUNTANT'S COMMENTS	
SECTION A - MATERIAL WEAKNESSES AND/OR VIOLATIONS OF STATE LAWS, RULES OR REGULATIONS	4
DISBURSEMENTS	5
PAYROLL	6
SECTION B – STATUS OF PRIOR FINDINGS	8
MANAGEMENT'S REPONSE	9

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

July 25, 2002

The Honorable Jim Hodges, Governor
and
Members of the Commission
South Carolina Human Affairs Commission
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the governing body and management of the South Carolina Human Affairs Commission (the Commission), solely to assist you in evaluating the performance of the Commission for the fiscal year ended June 30, 2001, in the areas addressed. This engagement to apply agreed-upon procedures was performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the specified users of the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose. The procedures and the associated findings are as follows:

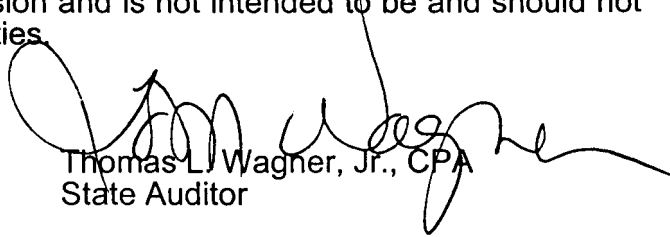
1. We tested selected recorded receipts to determine if these receipts were properly described and classified in the accounting records and internal controls over the tested receipt transactions were adequate. We also tested selected recorded receipts to determine if these receipts were recorded in the proper fiscal year. We compared amounts recorded in the general ledger and subsidiary ledgers to those in the State's accounting system (STARS) as reflected on the Comptroller General's reports to determine if recorded revenues were in agreement. We made inquiries and performed substantive procedures to determine if revenue collection and retention or remittance were supported by law. We compared current year recorded revenues from sources other than State General Fund appropriations to those of the prior year and, using estimations and other procedures, tested the reasonableness of collected and recorded amounts by revenue account. The individual transactions selected for testing were chosen randomly. We found no exceptions as a result of the procedures.

2. We tested selected recorded non-payroll disbursements to determine if these disbursements were properly described and classified in the accounting records, were bona fide disbursements of the Commission, and were paid in conformity with State laws and regulations and if internal controls over the tested disbursement transactions were adequate. We also tested selected recorded non-payroll disbursements to determine if these disbursements were recorded in the proper fiscal year. We compared amounts recorded in the general ledger and subsidiary ledgers to those in various STARS reports to determine if recorded expenditures were in agreement. We compared current year expenditures to those of the prior year to determine the reasonableness of amounts paid and recorded by expenditure account. The individual transactions selected for testing were chosen randomly. Our findings as a result of these procedures are presented in the Accountant's Comments section of this report.
3. We tested selected recorded payroll disbursements to determine if the tested payroll transactions were properly described, classified, and distributed in the accounting records; persons on the payroll were bona fide employees; payroll transactions, including employee payroll deductions, were properly authorized and were in accordance with existing legal requirements; and internal controls over the tested payroll transactions were adequate. We tested selected payroll vouchers to determine if the vouchers were properly approved and if the gross payroll agreed to amounts recorded in the general ledger and in STARS. We also tested payroll transactions for selected new employees and those who terminated employment to determine if internal controls over these transactions were adequate. We compared amounts recorded in the general ledger and subsidiary ledgers to those in various STARS reports to determine if recorded payroll and fringe benefit expenditures were in agreement. We performed other procedures such as comparing current year recorded payroll expenditures to those of the prior year; comparing the percentage change in recorded personal service expenditures to the percentage change in employer contributions; and computing the percentage distribution of recorded fringe benefit expenditures by fund source and comparing the computed distribution to the actual distribution of recorded payroll expenditures by fund source to determine if recorded payroll and fringe benefit expenditures were reasonable by expenditure account. The individual transactions selected for testing were chosen randomly. Our finding as a result of these procedures is presented in Payroll in the Accountant's Comments section of this report.
4. We tested selected recorded journal entries, all operating transfers between subfunds, and all appropriation transfers to determine if these transactions were properly described and classified in the accounting records; they agreed with the supporting documentation, were adequately documented and explained, were properly approved, and were mathematically correct; and the internal controls over these transactions were adequate. The individual journal entry transactions selected for testing were chosen randomly. We found no exceptions as a result of the procedures.
5. We tested selected entries and monthly totals in the subsidiary records of the Commission to determine if the amounts were mathematically accurate; the numerical sequences of selected document series were complete; the selected monthly totals were accurately posted to the general ledger; and the internal controls over the tested transactions were adequate. The transactions selected for testing were chosen randomly. We found no exceptions as a result of the procedures.

6. We obtained all monthly reconciliations prepared by the Commission for the year ended June 30, 2001, and tested selected reconciliations of balances in the Commission's accounting records to those in STARS as reflected on the Comptroller General's reports to determine if they were accurate and complete. For the selected reconciliations, we recalculated the amounts, agreed the applicable amounts to the Commission's general ledger, agreed the applicable amounts to the STARS reports, determined if reconciling differences were adequately explained and properly resolved, and determined if necessary adjusting entries were made in the Commission's accounting records and/or in STARS. The reconciliations selected for testing were chosen randomly. We found no exceptions as a result of the procedures.
7. We tested the Commission's compliance with all applicable financial provisions of the South Carolina Code of Laws, Appropriation Act, and other laws, rules, and regulations for fiscal year 2001. We found no exceptions as a result of the procedures.
8. We reviewed the status of the deficiencies described in the findings reported in the Accountant's Comments section of the State Auditor's Report on the Commission resulting from our engagement for the fiscal year ended June 30, 2000, to determine if adequate corrective action has been taken. We found no exceptions as a result of the procedures.
9. We obtained copies of all closing packages as of and for the year ended June 30, 2001, prepared by the Commission and submitted to the State Comptroller General. We reviewed them to determine if they were prepared in accordance with the Comptroller General's GAAP Closing Procedures Manual requirements; if the amounts were reasonable; and if they agreed with the supporting workpapers and accounting records. We found no exceptions as a result of the procedures.
10. We obtained a copy of the schedule of federal financial assistance for the year ended June 30, 2001, prepared by the Commission and submitted to the State Auditor. We reviewed it to determine if it was prepared in accordance with the State Auditor's letter of instructions; if the amounts were reasonable; and if they agreed with the supporting workpapers and accounting records. We found no exceptions as a result of the procedures.

We were not engaged to, and did not, perform an audit, the objective of which would be the expression of an opinion on the specified areas, accounts, or items. Further, we were not engaged to express an opinion on the effectiveness of the internal control over financial reporting. Accordingly, we do not express such opinions. Had we performed additional procedures or had we conducted an audit or review of the Commission's financial statements or any part thereof, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Governor and of the governing body and management of the Commission and is not intended to be and should not be used by anyone other than these specified parties.



Thomas L. Wagner, Jr., CPA
State Auditor

ACCOUNTANT'S COMMENTS

SECTION A - MATERIAL WEAKNESSES AND/OR VIOLATIONS OF STATE LAWS, RULES OR REGULATIONS

The procedures agreed to by the agency require that we plan and perform the engagement to obtain reasonable assurance about whether noncompliance with the requirements of State Laws, Rules, or Regulations occurred and whether internal accounting controls over certain transactions were adequate. Management of the entity is responsible for establishing and maintaining internal controls. A material weakness is a condition in which the design or operation of one or more of the specific internal control components does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Therefore, the presence of a material weakness or violation will preclude management from asserting that the entity has effective internal controls.

The conditions described in this section have been identified as material weaknesses or violations of State Laws, Rules, or Regulations.

DISBURSEMENTS

Goods and Services Received

During our testing of disbursements we noted four instances where we were unable to determine when goods or services had been received. The Commission neglected to sign and date purchase requisition forms when such goods and/or services were rendered. This condition makes it unfeasible to determine whether or not they were paid in a timely manner and within the proper fiscal period. The Commission's cash disbursement procedures state, "The Procurement Officer indicates date received, signs the delivery receipt or requisition." Section 11-35-45 of the 1976 South Carolina Code of Laws, as amended, states". . . all vouchers for payment of purchases of goods and services shall be delivered to the Comptroller General's Office within thirty (30) workdays from the receipt of goods or services . . ." Proviso 72.2 of Part 1B of the South Carolina Appropriation Act states, requires all funds of the agency to be used for the operations of the State agency for the current fiscal year.

We recommend the Commission document when goods or services are received by notations on delivery receipts or requisitions. The Commission should implement controls to ensure that all goods and services are document as to when they were received.

Canceling of Vouchers

We also noted five instances where vouchers were not properly cancelled to prevent reuse. We also found that the related supporting documentation was not properly cancelled out to prevent further usage. The probability of duplicating payments and/or not making payments in a timely manner increases when vouchers are not properly cancelled. Effective internal controls require that vouchers as well as interdepartmental transfers and the supporting documentation be marked to prevent reuse. The Commission's cash disbursement procedures require the supporting documentation to be properly cancelled.

We recommend the Commission cancel all vouchers, interdepartmental transfers, and all supporting documentation. The Commission should implement procedures to ensure that their procedure to do this is carried out at all times.

Recheck of Clerical Accuracy

We noted nine instances where invoices were not rechecked for clerical accuracy by the Commission's accounting personnel. The Commission neglected to recheck these vouchers. The probability of paying the vendor an incorrect amount increases when vouchers are not rechecked for clerical accuracy. The Commission's cash disbursement procedures require the Senior Accountant checks the invoice for clerical accuracy and then the voucher is forwarded to the Accounting Manager, who reviews vouchers for accuracy and affixes a "Clerical Accuracy" stamp.

We recommend the Commission verify that all invoices are clerically accurate before payment is made. The Commission should take steps to ensure that their procedures are operating effectively and the accounting staff are aware of their duties.

PAYROLL

During the testing of employees who terminated their employment with the Commission, we noted one instance where a employee was overpaid. The employee was paid \$3,537 that was not due. This error occurred because the employee was not taken off the payroll subsequent to termination.

Section 8-11-30 of the 1976 South Carolina State Code of Laws, as amended, states ". . . It is unlawful for a person to receive a salary from the State or any of its departments which is not due . . ." Also, effective internal controls should be in place to ensure that employees are not paid for time they did not work.

We recommend the Commission attempt to recover the overpayment from the employee. We also recommend that the Commission develop procedures to improve the internal controls related to removing employees from the payroll in a timely manner to avoid future overpayments.

SECTION B – STATUS OF PRIOR FINDINGS

During the current engagement, we reviewed the status of corrective action taken on each of the findings reported in the Accountant's Comments section of the State Auditor's Report on the South Carolina Human Affairs Commission for the fiscal year ended June 30, 2000, and dated June 13, 2001. We determined that the Commission has taken adequate corrective action on each of the findings. In response to our inquiries, we were told that the Commission has developed and implemented procedures to correct the weaknesses reported in the prior year.

MANAGEMENT'S RESPONSE

The management of the South Carolina Human Affairs Commission did not respond to the findings identified in the Accountant's Comments Section of this report by the due date specified in our transmittal letter accompanying the preliminary draft for the agency's review dated October 28, 2002.

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